

Message Text

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ORIGIN EB-08

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AGRE-00 CEA-01 CIAE-00 DODE-00 FRB-03 H-01 INR-07
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05
SS-15 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01
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TO AMEMBASSY OTTAWA
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TAGS:ETRD, CA, ENRG

SUBJECT: PETROCHEMICAL TARIFF TALKS

REF: (A) OTTAWA 1463; (B) STATE 265686

1. EMBASSY IS REQUESTED TO MAKE THE FOLLOWING POINTS TO
APPROPRIATE LEVEL OFFICIALS AT EXTERNAL AFFAIRS; ENERGY,
MINES AND RESOURCES; AND ITC:

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-- IN RESPONSE TO THE SUGGESTION PUT FORWARD BY
MINISTER GILLESPIE IN HIS DISCUSSIONS WITH SECRETARY
SCHLESINGER IN WASHINGTON MARCH 4, THE U.S. IS
PREPARED TO HOLD EXPLORATORY BILATERAL DISCUSSIONS ON PETRO-
CHEMICAL TARIFFS AT AN EARLY DATE. WE SUGGEST THAT ITC
MINISTER CHRETIEN'S CALL ON STR DESIGNATE STRAUSS LATER
THIS MONTH WOULD PROVIDE AN APPROPRIATE OPPORTUNITY FOR

AN INITIAL DISCUSSION, TO BE FOLLOWED BY MORE DETAILED STAFF-LEVEL DISCUSSION INVOLVING BOTH TRADE AND ENERGY EXPERTS.

-- IT IS OUR UNDERSTANDING, (BASED ON REF (A)), THAT IN PUTTING FORWARD HIS SUGGESTION FOR PETROCHEMICAL TALKS, GILLESPIE WAS RESPONDING TO A SITUATION WHICH HAS TAKEN ON CONSIDERABLE POLITICAL SIGNIFICANCE IN THE PROVINCE

OF ALBERTA. INsofar AS DEVELOPMENTS IN THE WESTERN CANADIAN PETROCHEMICAL INDUSTRY ARE UNAVOIDABLY LINKED TO CANADIAN LONG-TERM GAS SUPPLIES, THIS IS A QUESTION OF SOME POLITICAL IMPORTANCE IN THE UNITED STATES AS WELL. WE THEREFORE BELIEVE THAT ANY BILATERAL DISCUSSION OF PETROCHEMICAL TARIFFS SHOULD TAKE PLACE IN THE CONTEXT OF CANADIAN GAS SUPPLY OUTLOOK AND POLICY AS THESE IMPACT ON THE INTERESTS AND INTENTIONS OF INDUSTRIES ON BOTH SIDES OF THE BORDER. (WE UNDERSTAND AMBASSADOR HAS ALREADY MADE THIS POINT INFORMALLY WITH MINISTER GILLESPIE, AND THAT HE RAISED NO OBJECTION.)

-- ANY ACTUAL NEGOTIATIONS WHICH MIGHT EVOLVE FROM THE EXPLORATORY TALKS TO WHICH WE ARE AGREEING WOULD OF COURSE HAVE TO TAKE PLACE ONLY WITHIN THE CONTEXT OF THE MTN.

2. FYI: U.S. IS INTERESTED IN EXPLORING ALL POSSIBILITIES OF TRADE-OFFS WITHIN THE MTN CONTEXT, BUT IS ONLY AT THE INITIAL STAGE OF DEVELOPING POSITION ON U.S. INTERESTS LIMITED OFFICIAL USE

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VIS-A-VIS CANADA. AGAINST THE BACKDROP OF THE SEVERE WINTER ENERGY SHORTAGES WE HAVE RECENTLY EXPERIENCED, WE WISH TO LEAVE NO STONE UNTURNED IN SEARCHING FOR ADDITIONAL SECURE ENERGY SUPPLIES, PARTICULARLY NATURAL GAS. WE ARE THUS PREPARED TO CONSIDER ALL OPTIONS, INCLUDING THE POSSIBILITY OF A LINKAGE BETWEEN GAS SUPPLY ASSURANCES AND TARIFF REDUCTIONS ON PETROCHEMICALS. U.S. CONCESSION IN TERMS OF BOUND TARIFF REDUCTIONS WITHIN GATT FRAMEWORK WOULD HOWEVER, RAISE QUESTION OF VALUE OF RECIPROCAL GUARANTEES ON SUPPLY ASSURANCES. EXISTING GATT FRAMEWORK INCLUDES RULES AND PROCEDURES GOVERNING MARKET ACCESS COMMITMENTS BUT IS DEFICIENT IN THE AREA OF SUPPLY ASSURANCES. IF CANADA IS INDEED WILLING TO DISCUSS SPECIFIC SUPPLY ASSURANCES, WE WOULD HAVE TO ASSESS THEM IN THE LIGHT OF CANADA'S REFUSAL TO DISCUSS RULES GOVERNING COMMITMENTS ON RESTRICTIONS IN THE MTN FRAMEWORK GROUP. IN ANY EVENT WE ARE WILLING TO EXPLORE THE ISSUE BEGINNING WITH THE CHRETEN/STRAUSS MEETING.

3. INITIAL EXAMINATION OF ILLUSTRATIVE SECOND-ORDER
PETROCHEMICAL DERIVATIVE TARIFFS (REF B) REVEALS THAT
SIGNIFICANT BENEFITS TO CANADA COULD RESULT FROM U.S.
MTN REDUCTIONS IN THIS AREA. WE WOULD ALSO WANT TO LOOK
AT POSSIBLE RECIPROCAL CANADIAN PETROCHEMICAL TARIFF
REDUCTIONS. END FYI

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